

State of South Carolina



Office of the State Auditor

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COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

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July 10, 2002

Ms. Sybil B. Neaves, Director of Reimbursement
Integrated Health Services, Inc.
The Highlands
910 Ridgebrook Road
Sparks, Maryland 21152

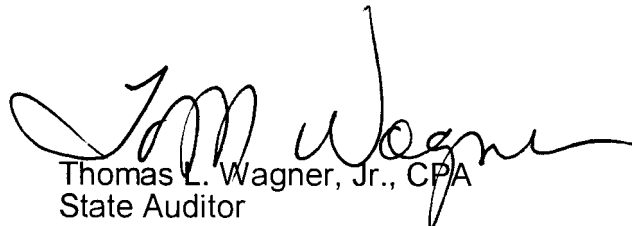
Re: AC# 3-DRF-J9 – Integrated Health Services of Charleston at Driftwood

Dear Ms. Neaves:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1998 through September 30, 1999. That report was used to set the rate covering the contract period beginning October 1, 2000.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph Hayes

**INTEGRATED HEALTH SERVICES
OF CHARLESTON AT DRIFTWOOD**

NORTH CHARLESTON, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2000
AC# 3-DRF-J9**

AGREED-UPON PROCEDURES REPORT

ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

March 12, 2002

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Integrated Health Services of Charleston at Driftwood, for the contract period beginning October 1, 2000, and for the twelve month cost report period ended September 30, 1999, as set forth in the accompanying schedules. The management of Integrated Health Services of Charleston at Driftwood is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

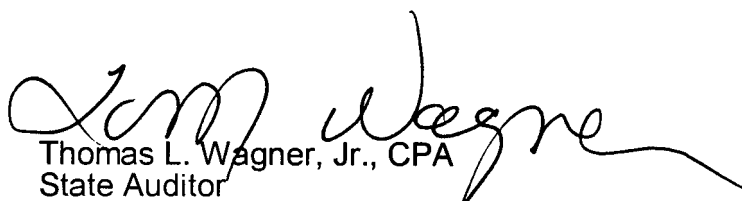
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Integrated Health Services of Charleston at Driftwood, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Integrated Health Services of Charleston at Driftwood dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
March 12, 2002

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.


Thomas L. Wagner, Jr., CPA
State Auditor

INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD

Computation of Rate Change
For the Contract Period
Beginning October 1, 2000
AC# 3-DRF-J9

10/01/00-
09/30/01

Interim reimbursement rate (1)	\$95.80
Adjusted reimbursement rate	<u>92.14</u>
Decrease in reimbursement rate	\$ <u><u>3.66</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 25, 2002

INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD
 Computation of Adjusted Reimbursement Rate
 For the Contract Period October 1, 2000 Through September 30, 2001
 AC# 3-DRF-J9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$42.11	\$54.01	
Dietary		7.88	10.12	
Laundry/Housekeeping/Maint.		<u>9.04</u>	<u>8.88</u>	
Subtotal	\$ <u>5.11</u>	59.03	73.01	\$59.03
Administration & Med. Rec.	\$ <u>-</u>	<u>15.23</u>	<u>10.55</u>	<u>10.55</u>
Subtotal		74.26	<u>\$83.56</u>	69.58
<u>Costs Not Subject to Standards:</u>				
Utilities		2.42		2.42
Special Services		.36		.36
Medical Supplies & Oxygen		4.63		4.63
Taxes and Insurance		1.51		1.51
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$83.18</u>		78.50
Inflation Factor (3.20%)				2.51
Cost of Capital				7.53
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				5.11
Effect of \$1.75 Cap on Cost/Profit Incentives				(3.36)
Nurse Aide Staffing Add-On 10/01/00				1.23
Nurse Aide Staffing Add-On 10/01/99				<u>.62</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$92.14</u>

INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD

Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1999
AC# 3-DRF-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$2,555,703	\$ 320 (1) 1,548 (6) 1,497 (10)	\$ 22,704 (2) 5,921 (7) 51,271 (8) 36,161 (8) 67,212 (9) 9,701 (9) 5,211 (11)	\$2,360,887
Dietary	451,348	512 (6)	2,434 (7) 7,405 (9)	442,021
Laundry	180,846	-	13,338 (7) 867 (9)	166,641
Housekeeping	207,966	-	5,279 (9)	202,687
Maintenance	139,146	-	1,599 (9)	137,547
Administration & Medical Records	716,954	649 (6) 36,161 (8) 26,648 (8) 2,981 (9) 74,847 (10)	2,426 (7) 1,000 (7) 905 (9)	853,909
Utilities	127,592	7,899 (3)	-	135,491
Special Services	33,482	24 (7)	593 (9) 2,553 (10) 4,736 (11) 5,367 (12)	20,257

INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD

Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 1999
 AC# 3-DRF-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Medical Supplies & Oxygen	218,301	22,704 (2) 59,416 (5) 3,519 (6) 24,623 (8) 3,368 (9)	4,062 (4) 11,539 (6) 483 (6) 8,598 (7) 47,513 (11)	259,736
Taxes & Insurance	84,530	-	-	84,530
Legal Fees	-	-	-	-
Cost of Capital	431,158	21,826 (1) <u>47,728 (13)</u>	76,204 (10) <u>2,078 (10)</u>	422,430
Subtotal	5,147,026	336,270	397,160	5,086,136
Ancillary	283,617	4,062 (4) 5,794 (6)	59,416 (5) 6,401 (7)	227,656
Non-Allowable	976,510	40,094 (7) 87,212 (9) 4,491 (10) 57,460 (11) <u>5,367 (12)</u>	22,146 (1) 47,728 (13)	1,101,260
Total Operating Expenses	<u>\$6,407,153</u>	<u>\$540,750</u>	<u>\$532,851</u>	<u>\$6,415,052</u>
Total Patient Days	<u>56,064</u>	<u>-</u>	<u>-</u>	<u>56,064</u>
TOTAL BEDS	<u>160</u>			

INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD

Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-DRF-J9

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 930,684	
	Accumulated Depreciation	159,148	
	Restorative	320	
	Cost of Capital	21,826	
	Other Equity		\$1,089,832
	Nonallowable		22,146
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Medical Supplies & Oxygen	22,704	
	Nursing		22,704
	To properly classify specialty bed expense DH&HS Expense Checklist		
3	Utilities	7,899	
	Other Equity		7,899
	To record expense applicable to the current year HIM-15-1, Section 2302.1		
4	Ancillary	4,062	
	Medical Supplies & Oxygen		4,062
	To correct the Part B Glucose reclassification State Plan, Attachment 4.19D		
5	Medical Supplies & Oxygen	59,416	
	Ancillary		59,416
	To reverse DH&HS adjustment number 23 to remove IV therapy DH&HS Expense Checklist State Plan, Attachment 4.19D		

INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD

Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-DRF-J9

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nursing	1,548	
	Dietary	512	
	Administration	649	
	Medical Supplies & Oxygen - Ancillary MS	3,519	
	Ancillary	5,794	
	Medical Supplies & Oxygen -		
	Nursing Supplies		11,539
	Medical Supplies & Oxygen - Oxygen		483
	To properly classify expense		
	DH&HS Expense Checklist		
7	Therapy	24	
	Nonallowable	40,094	
	Other Equity	3,847	
	Liabilities		3,807
	Assets		40
	Nursing		5,921
	Dietary		2,434
	Laundry		13,338
	Administration		2,426
	Medical Records		1,000
	Medical Supplies & Oxygen		8,598
	Ancillary		6,401
	To disallow expense not adequately		
	documented		
	HIM-15-1, Section 2304		
8	Administration	36,161	
	Medical Records	26,648	
	Medical Supplies & Oxygen	24,623	
	Nursing		51,271
	Restorative		36,161
	To reclassify salaries to the proper		
	cost center		
	HIM-15-1, Sections 2304 and 2313.2		

INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD

Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-DRF-J9

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Nonallowable	87,212	
	Medical Records	2,981	
	Medical Supplies & Oxygen	3,368	
	Nursing		67,212
	Restorative		9,701
	Dietary		7,405
	Laundry		867
	Housekeeping		5,279
	Maintenance		1,599
	Administration		905
	Special Services		593
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
10	Nursing	1,497	
	Administration	74,847	
	Nonallowable	4,491	
	Therapy		2,553
	Cost of Capital - Depreciation Expense		76,204
	Cost of Capital - Interest Income		2,078
	To adjust home office IHS cost allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
11	Nonallowable	57,460	
	Nursing		5,211
	Medical Supplies & Oxygen		47,513
	Special Services		4,736
	To remove special (ancillary) services reimbursed by Medicare		
	State Plan, Attachment 4.19D		
12	Nonallowable	5,367	
	Special Services		5,367
	To adjust co-insurance for Medicare Part B services		
	State Plan, Attachment 4.19D		

INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD

Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-DRF-J9

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
13	Cost of Capital Nonallowable	47,728	47,728
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$1,634,429</u>	<u>\$1,634,429</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD

Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1999
AC# 3-DRF-J9

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2,3156</u>
Deemed Asset Value (Per Bed)	36,165
Number of Beds	<u>160</u>
Deemed Asset Value	5,786,400
Improvements Since 1981	999,002
Accumulated Depreciation at 9/30/99	<u>(2,219,645)</u>
Deemed Depreciated Value	4,565,757
Market Rate of Return	<u>.060</u>
Total Annual Return	273,945
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	273,945
Depreciation Expense	150,563
Amortization Expense	-
Capital Related Income Offsets	(2,078)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	422,430
Total Patient Days (Minimum 96% Occupancy)	<u>56,064</u>
Cost of Capital Per Diem	\$ <u><u>7.53</u></u>

INTEGRATED HEALTH SERVICES OF CHARLESTON AT DRIFTWOOD

Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1999
AC# 3-DRF-J9

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 7.79
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>11.78</u>
Reimbursable Cost of Capital Per Diem	\$ 7.53
Cost of Capital Per Diem	<u>7.53</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

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